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APPROACHES TO SMES NETWORKING
FOR MARKET ACCESS

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This note was prepared by the Private Sector Development Branch of the United Nations Industrial Development Organization (UNIDO), based on work by Anna Stancher, UNIDO intern, Gilles Galtieri, UNIDO consultant, under the guidance of Fabio Russo, UNIDO.

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Introduction

Evidence from industrialized and developing countries shows that small and medium enterprises (SMEs) deliver a fundamental contribution to economic development, as they are major vehicles for the generation of employment and income. An alley of business growth is represented by the engagement into export activities. In the wake of globalization and trade liberalization, opportunities to access new markets have increased. However, economic deregulation is exposing SMEs to increasing competition. In this new context, thus, isolated enterprises confront severe challenges in establishing an export presence in foreign markets and keeping pace with global competitors.

SMEs are often unable to take advantage of market opportunities that require large volumes of production, broad product range and regular supply. They lack information and marketing skills and have little access to expertise and finance. As a result, they are often unable to enter the global circuits of production and sale.

These obstacles to growth can be overcome when small-scale enterprises join forces in collective endeavours. By combining knowledge, skills and resources, SMEs can improve their export potential and reduce the costs and risks involved in penetrating new markets (UNIDO, 2003).

JOINT EXPORT STRATEGIES

The needs of small-scale enterprises approaching foreign markets differ on the basis of a firm’s sector of activity, characteristics of product and production process, and availability of human and financial resources. It follows that different strategies suit the needs of different groups of enterprises. This note introduces different types of enterprise networks relevant for market access and reviews their main features. Emphasis will be placed on the needs and type of beneficiaries best addressed by these bodies.
Export consortia

An export consortium can be defined as a voluntary alliance of firms with the objective of promoting the goods and services of its members abroad and facilitating the export of these products through joint-actions (UNIDO, 2003). As such it addresses the major obstacles faced by SMEs in the process of internationalization, in particular their limited knowledge of foreign markets and business languages, difficulties in identifying business partners, limited marketing, scarce availability of finance and narrow products range.

Enterprises joining a consortium pool resources and share knowledge in order to gain direct export experience and set up international contacts, while keeping promotional and marketing costs low. The main services offered by a consortium can be identified in the following: joint marketing and commercialisation, training of personnel, joint sourcing of inputs and legal assistance. Moreover, member firms get a direct feel of the international market, and stay in touch with changing customer preferences and market conditions.

Thus, export consortia are powerful tools to help SMEs overcome isolation and improve their competitiveness on the global market.¹

¹ For a comprehensive review of types of, and services provided by export consortia see “Development of cluster and networks of SMEs: the UNIDO programme. A guide to export consortia” (UNIDO, 2003), available at www.unido.org/exportconsortia
The apparel industry plays a major role in the Moroccan economy, where it generates 40% of industrial development and 35% of national exports. The new international environment, however, is challenging the good performance of the sector. In particular, market liberalization has exacerbated competition with lower-cost producers, while the restructuring of global supply chains is forcing entrepreneurs to re-think their sale strategies.

Isolated apparel manufacturers lack resources and expertise to adopt a more aggressive marketing policy. This is why UNIDO assists them in the development of collective export strategy.

In May 2004, with UNIDO’s assistance, a group of dynamic apparel producers established MOSAIC, the first export consortium of the country to obtain legal recognition. The six member firms already enjoyed a presence in foreign markets. Yet, they recognized that a strategic alliance could increase their competitiveness, and help them innovate and diversify markets.

In order to coordinate actions on the achievement of shared objectives, a road map was formulated foreseeing the associates’ move from sub-contracting to co-contracting. Having this goal in mind, the consortium engaged in the following actions:

- **Joint marketing**, including joint commercial missions, participation in international fairs, development of common marketing tools (web site, magazines, CD-Rom).
- Identification of reliable supplier and **joint purchase of inputs** at lower prices thanks to the group’s greater bargaining power vis-à-vis its suppliers.
- Diagnosis of the member’s financial needs and **identification of funding** to support members’ collective actions.
- Assistance to member firms applying for a **quality certification**.
- Skills upgrading through the **organization of training courses**.

As a result, MOSAIC has achieved a production capacity of approximately 31,000 pieces/day, and a turnover of 9 million Euros from export activities. 1300 workers are employed in the manufacturing of apparel articles, which are sold to leading European brands and retailers.

**In brief:**
MOSAIC is a consortium of six manufacturing companies, producing complementary articles in the apparel sector. As a result of joint-marketing and input purchase, training, and quality certification, the associates have upgraded their production capacities and strengthened their presence in the European market.

There are examples of successful export consortia among enterprises producing competing as well as complementary goods. Yet, it is necessary to bear in mind that SMEs benefit most from the participation into a consortium when they meet some basic requirements. Member firms should have fairly developed organisational capabilities, particularly at the managerial level, in order to be able to complete the administrative procedures required by their international clients (invoicing, preparation of freight notes, etc.).
Moreover, they must be able to ensure regular supply of quality products to the targeted markets.

Therefore, export consortia are most appropriate for SMEs that have already gathered a considerable production and, possibly, export experience, and need support in facing the challenges raised by globalization and market liberalization. These conditions are mostly met in the manufacturing and service sectors, while in the agricultural and handicraft sector individual producers often lack the production and organizational capacity, expertise and human and financial resources necessary to meet foreign market requirements. Supporting the latter to access export markets involves a considerably higher human and financial investment in terms of upgrading product quality and production technology. These services exceed the functions of an export consortium. In the case of enterprises belonging to the farming and handicraft sector it is thus desirable to look at alternative forms of business networks.

**Production cooperatives**

Producers’ cooperatives are mostly found in the agricultural and horticultural sectors. The members of these networks engage in joint actions by pooling human and material resources, and share work to achieve critical mass. A cooperative assists its members form the production to the sale of their products, and, if necessary, in processing and packaging activities. Thus, it offers a wide range of services encompassing shared production equipment (machines, technology, etc.), technical and managerial resources, logistics (warehouses, produce transportation, etc.), and group purchase of inputs (e.g. seeds, fertilizers, cattle-fees, etc.). Successful cooperatives may further expand their activities to include gathering and dissemination of market information, training in new production techniques, product-advertising campaigns, and marketing.

While the members of an export consortium retain their identity, in a cooperative firms merge their products and offer consolidated consignments. Producers transfer the ownership of the product to the cooperative, and this offers them the benefits of scale economies, since it can accept large order, for which individual SMEs lack the capacity. Profits are either re-invested in the cooperative or distributed to the associated enterprises.

Given the wide range of functions covered, cooperatives have the potential to support SMEs development particularly within rural contexts, where they play a critical role in ensuring the livelihood of smallholders.
Box 2

High competition, scarce inputs availability and limited market access jeopardize the survival of small-scale handicraft industry in Kenya. In order to improve their prospects of business development, since 1963 a group of wood carvers of Mombasa has joined forces in The Akamba Handicraft Industry Cooperative Society Limited (AHICS).

A first obstacle faced by manufacturers was the unavailability of outfitted workspace. The cooperative has thus purchased a 4 ha ground, and equipped it with facilities and tools suitable to host its members’ workshops. Additionally, AHICS provides storage, packaging and transportation services, and takes full responsibility of marketing and sale. As a result, carvers are able to target differentiated markets so that their production is either sold locally to wholesaler and tourists, or exported through the cooperative’s export department. In order to meet its members’ needs, the cooperative has developed a range of additional services. On the one hand, it facilitates investments by granting its members access to credit. On the other hand, it offers them the opportunity to attend yearly training sessions. In 1998, AHICS grouped 2902 carvers.

In brief:
Joint action within AHICS yielded considerable benefits in terms of increased access to lower cost inputs, availability of equipped workshops, storage facilities, packaging and logistic services, and higher turnover via joint marketing and export.


Quality Consortia

Quality consortia are associations tasked with ensuring that their members’ products meet high standards in terms of 1) product origin, 2) product characteristics, 3) and quality.

Quality consortia are mostly found in the foodstuff sector, among producers of the same goods (e.g. cheese, oil, fruits, vegetables, etc.), and perform long term activities aimed at attaining the recognition of a quality label or a denomination of origin (e.g. the European labels “Protected Denomination of Origin”, and “Protected Geographic Indication”). Once a denomination is consolidated and origin and quality of a product are “officially” recognized, the single producer earns substantial benefits and is facilitated in the marketing operations. Well known examples of these enterprise networks are the Prosciutto di San Daniele and the Parmigiano Reggiano consortia. In the latter case, 90% of the production takes place within cooperatives, while the

Further information on this issue is available in the note “Quality consortia – Parma and San Daniele – Food processing”, to be accessed at www.unido.org/exportconsortia, section Country Experiences – Case Studies
marketing of the product benefits of the Denomination of Origin label attained by the quality consortium.

The services provided by a quality consortium encompass: definition of the peculiarities of the product, regulation of production and monitoring of its respect, lobbying for the official recognition of the denomination of origin, regular inspection of quality, research and innovation, legal protection of the denomination, and promotional activities.

Box 3

The Consorzio del Prosciutto di San Daniele (San Daniele ham consortium) groups 26 producers of the ham-manufacturing industrial district of San Daniele, which jointly employ over 600 workers, and have a production potential of 3 million ham-legs a year and an annual turnover in excess of Lit 500 billion (over USD 300 million). The consortium was established in June 1961 by 16 associates. At that stage, the founders had already identified the creation of a trademark to identify the local ham as the area for common action. After having agreed upon the definition of a “traditional manufacturing procedure”, they undertook what was to prove a very long lobbying initiative to have it enshrined within the national legislation. The law was passed in July 1970, and the implementation code promulgated in 1978 when the consortium was awarded the exclusive right to oversee upon the use of the registered trademark.

Thereafter, the consortium could more confidently embark upon new projects:

- an aggressive advertisement policy, including participation on behalf of its associates to major European food fairs, expanding from Europe to Japan and the US;
- the allocation of production quota across the cluster producers, in order to avoid an unsustainable growth of production capacities at falling prices;
- support for producers using higher quality inputs, in order to secure the positioning of the cluster in the higher-quality end of the market;
- linking up to a quality certification agency in order to secure compliance with the European legislation on guaranteed origin products.

In brief:
The Consorzio del Prosciutto di San Daniele is an association of food processors, whose main activities have been: creation of a trademark, institutional lobbying, advertising, control over production quantity and quality, and certification of quality.


This form of association markets exclusively the product label, which means that efforts concentrate on advertising the common quality of the product rather than individual trademarks. In so doing, competition among individual companies or producers’ cooperatives is overcome, and resources can be pooled for the achievement of shared goals. This formula well suits networks of cooperatives in the agri-business sector. Indeed, when cooperatives join forces into a quality consortium their production and marketing capacities benefit of the provision of a range of complementary services. On the one
hand, the associated cooperatives continue to assist their members at all stages of production and processing, while an overstretching of their activity to include quality and marketing is avoided. On the other hand, the consortium builds on the cooperatives’ supply capacity, financial and human resources, in order to assist them in product branding, market research, and innovation. Moreover, once the activity of the quality consortium is consolidated, this can move one step forward towards ensuring the compliance with foreign markets requirements and export promotion.

### Box 4

The “apple district” of Val di Non, Italy, is home of one of the most renowned fruit brands in Italy and Europe: Melinda. Apple production for commercial purposes had an early start in the region, dating back to the XIX, and gained progressively ground to become, at the beginning of the XX century, the predominant agriculture culture. It is only in the last thirty years, however, that returns from apple cultivation have increased, contributing considerably to the improvement of local living standards. This shift can be traced back to the flourishing of producers’ cooperatives and, more recently, of a consortium of cooperatives.

The first cooperatives were established to address the problems arising from the structure of the local agricultural sector. This was characterized by the presence of a large number of smallholders, endowed with narrow portions of land. Moreover, sale took place through intermediaries, which resulted in high levels of competition among farmers. These conditions placed significant constraints on business development. On the one hand, the farms’ small size hindered mechanization of production and achievement of scale economies. On the other hand, the retail system increased uncertainty on profits and induced farmers to cut prices in order to secure sales.

During the XX century producers started pooling resources within cooperatives, which allowed them to benefit from shared facilities and common services. Local cooperatives supported farmers at all stages of the production process. **Shared grading and storing facilities** were built, **technical assistance** provided in the field, and **financial support** granted for mechanization, variety innovation and farm reorganization. Moreover, **marketing and transportation** were managed by the cooperatives.

Improvements in the production process and joint marketing allowed producers to get a stable foothold in the national market. As a result a sustained demand for “Val di Non apples” developed.
In the 1980s, however, a new challenge emerged. The presence on the market of “Val di Non apples” in three-fold quantity compared to the effective production encouraged farmers to join forces in order to fight frauds and create a common brand. This led to the establishment, in 1989, of a consortium grouping all cooperatives of the district with the objective of improving the profitability of production. Thereafter grading and storage operations have remained responsibility of the individual cooperatives, while the consortium has been endowed with the mandate of performing overall control functions, in order to ensure homogeneity and quality of the final product. This is made possible by the achievement of a sector-wide agreement among farmers who formalized their commitment to produce in the respect of a common code of good practice. As a result, the consortium has adopted a common brand, Melinda, and has developed a strong marketing campaign. In 1994 the consortium moved a step forward by centralizing sales, which had previously remained under the responsibility of the single cooperatives. This was not an easy move, since it met the resistance of the farmers afraid of loosing control over their returns. The success of the operation, however, strengthened the consortium and reduced price competition among producers. As a result the consortium could expand its mandate towards the promotion of quality, which led to the attainment, in 2003, of a D.O.P. (denomination of protected origin) label. Today the consortium groups more than 5000 framers, and sells on the national and European market with a yearly turnover of 181 million euros.

In brief: Melinda is a consortium of cooperatives in the fresh-food sector. Each cooperative provides technical and financial assistance to its members in the production process, from farming activities to grading, storing and packaging, while the consortium is in charge of brand development, marketing, sales and quality promotion.

Further information can be accessed at: www.melinda.it

The networks reviewed above allow SMEs to acquire direct export experience and benefit form the advantages of collective action. It must also be emphasized that, if their members require so, these bodies are flexible enough to expand their activity into new areas. Indeed, in order to strengthen their members’ export potential, they can forge partnerships with related agencies, (e.g. training centres or service companies), or offer additional services ranging from certification of compliance with international standards, through staff recruitment and training, to R&D.
PROGAN is an Argentinean consortium of small-scale meat exporters. Established to support producers in their first move towards export, it now groups 44 members with a yearly production capacity averaging 12,000 calves. The activity of PROGAN focused initially on the strengthening of marketing and distribution channels, and on the improvement of members’ productivity and competitiveness. The adoption of a joint-marketing strategy allowed producers to establish contacts with European importers. It, however, became immediately clear that gaining and sustaining access to exports markets rested on the prompt compliance with international standards of traceability. Lacking the relevant expertise, the consortium sought UNIDO’s assistance in the introduction of a traceability scheme and in the attainment of official certification. Starting in 2003, UNIDO, in collaboration with the University of Parma, supported the development and adoption of a common code of good practice among meat producers, followed by conformity with the European regulation on traceability (178/2002). Simultaneously, the consortium launched a marketing campaign in the Italian beef market. As a result, from October 2005 PROGAN have started exporting to Italy.

In brief:
PROGAN is an export consortium of small-scale meat producers. Its activity focused, initially, on the upgrading of production capacity and marketing. Subsequently, the consortium supported producers in the implementation of a traceability scheme, which has secured access to export markets.

Source: www.progan.com.ar

SMEs engaged in export activities can also obtain assistance from sectoral associations. These are umbrella organisations that represent the professional interests of their members, and have a broader mandate than any of the abovementioned bodies. Although not directly involved in export promotion, they offer a range of complementary services that facilitate and support SMEs in entering new markets. First, given their sectoral focus, these associations possess substantial experience in all matters related to their profession, and are able to offer valuable advice, targeted on their members’ needs. Secondly, they maintain contact with institutions and defend the interests of the sector in the dialogue with policy markers, partners and other organisations on topics such as rules and regulations, certifications, standards, and labour legislation. Finally, their functions and activities are crucial to encourage enterprise development. These range from the promotion of professional qualifications, through support for knowledge exchange among
members, training, and discussion of topics of joint interest, to dissemination of information with regard to new markets.

By reducing information costs, upgrading worker training and facilitating horizontal coordination, sectoral associations have thus the potential to strengthen their members’ export capacity. It is, however, necessary to call attention to the existence of a fundamental difference between export promotion activities undertaken by export consortia and those pertaining to sectoral associations. While the first are established by a limited number of members and offer services tailored to their needs, the latter do not present a similar specialization of functions. On the contrary, they address sector-wide issues, while the design of ad hoc interventions for exporting enterprises exceeds their mandate.

To sum up, this note has reviewed main features and functions of some networks assisting SMEs in the process of market access. Three main forms of enterprise networks have been distinguished, namely export consortia, producers’ cooperatives and quality consortia. Although all providing members with assistance in marketing and export, these bodies differ considerably in their structure and functions.

Indeed, cooperatives and quality consortia present a more complex structure and undertake a larger and financially more demanding range of activities compared to export consortia. In particular, the services offered by a cooperative cover all stages of production, process and distribution. They are thus best suited to fresh-food producers, micro enterprises and handicraft producers, since they facilitate the upgrading of members’ production and marketing capacities. Moreover, their functioning requires a limited involvement of the members, which remedies to their narrow expertise, since decision-making power and administrative functions are delegated to a directive committee.

By contrast, the structure of an export consortium is more agile, while its activity is financially less demanding. Consortia members retain their financial,
legal and commercial autonomy. So despite their participation in the consortia, member firms do not give up any control over their business to others. This is another crucial difference between consortia and other types of strategic alliances. Its defining characteristics is represented by the extensive commitment required on the part of the associated enterprises, which are directly involved in the definition of scope of activity and goals of the organization as well as in the performance of its functions. As a result, members get a direct feel of the market and acquire a valuable asset, namely experience in exporting activities. Given these characteristics, it follows that export consortia best suit the needs of structured SME at their early stages of export. Finally the note has also illustrated (Re. Melinda case) how different forms of networking can be combined to achieve maximum results for their members.

In conclusion, it is advisable that producers aiming at accessing new markets assess, first, their effective production, organizational and marketing capacities, and their potential for improvement in terms of production and skills upgrading. This will help them identify the form of association that best addresses their needs, thus providing them with the most suitable support in the process of internationalization.
Table 1 Export consortia and other enterprise networks: comparative table

<table>
<thead>
<tr>
<th></th>
<th>Export Consortium</th>
<th>Producers’ cooperative</th>
<th>Quality consortium</th>
<th>Sectoral association</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Main goals and activities</strong></td>
<td>Promotion of members’ exports and provision of specialized export-related services.</td>
<td>Provision of joint resources (human and material) for the production and sales of members’ products.</td>
<td>Guarantee product’s origin, characteristics and quality. Monitor the respect of the regulation of production. Lobbying for official recognition of the denomination of origin and ensures legal protection of its label.</td>
<td>Represents the interests of a professional category or sector in a broad set of issues such as employment policies, technical and financial regulations, standards etc.</td>
</tr>
<tr>
<td><strong>Membership</strong></td>
<td>The number of members ranges between five and twenty. Larger multisectoral consortium exists in Italy, but they are more of an exception.</td>
<td>Between a dozen and several hundreds.</td>
<td>Between a dozen and several hundreds; individual producers and producers’ cooperatives.</td>
<td>Ranging between hundreds and thousands.</td>
</tr>
<tr>
<td><strong>Sectors</strong></td>
<td>Manufacturing, processed food, services.</td>
<td>Fresh-food producers, foodstuff processors, handicraft.</td>
<td>Foodstuff producers.</td>
<td></td>
</tr>
<tr>
<td><strong>Target markets</strong></td>
<td>International</td>
<td>National and international</td>
<td>National and international</td>
<td>National and international</td>
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